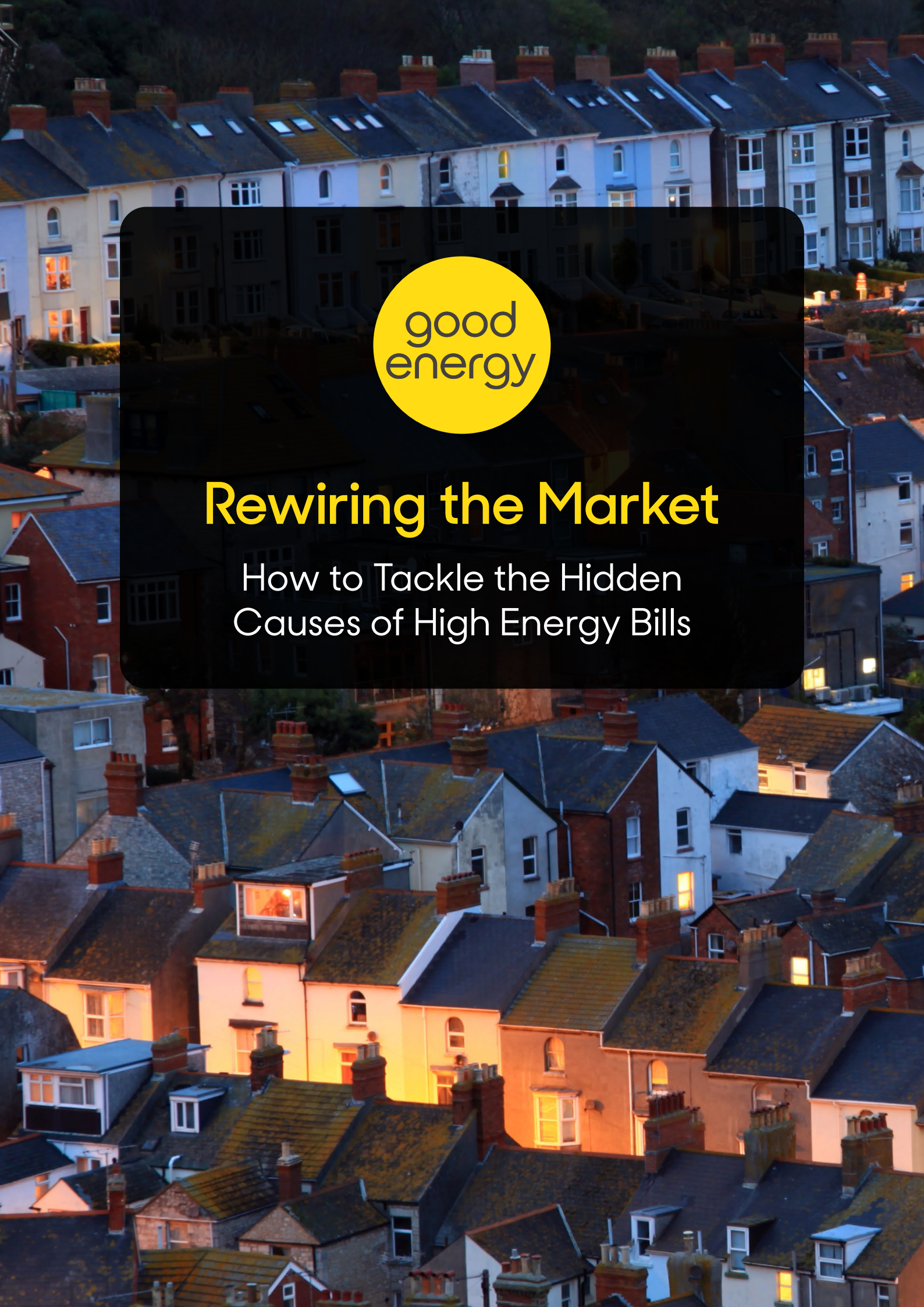


good energy

Rewiring the Market

How to Tackle the Hidden Causes of High Energy Bills

Contents

Foreword

Nigel Pocklington, Chief Executive Officer, Good Energy Group

Energy prices in the UK continue to rise, and for households and businesses, there is little sense that relief is on the way. The average household bill is set to reach £1,663 this July, up more than 46% since 2019. At the same time, an estimated 2.36 million households in England are now in fuel poverty.

This is no longer a short-term issue but a persistent structural problem, with repeated price shocks becoming part of everyday life.

Without meaningful reform, the UK will remain stuck in this cycle of crisis management rather than fixing the root causes.

The UK remains heavily exposed to international gas markets. Britain is a price taker, not a price maker. As a result, when global prices rise - most recently following the US-Iran conflict - household bills follow. Two major price shocks in five years are clear evidence that the system is not working as it should.

Calls to drill more oil in the North Sea may offer a sense of control, but in reality, would have limited impact on household bills set by global markets.

Consumers are already responding. Interest in solar and battery storage is growing rapidly as people look to reduce their reliance on the grid and avoid peak prices. But the system is not keeping pace.

There are two main routes to lowering energy prices.

The first is to accelerate the transition to clean energy. This will strengthen energy security, reduce reliance on imported fossil fuels, and support decarbonisation. But it will take time to translate into lower bills.

The second is to reform the structure of the energy market itself. In particular, how prices are set and passed on to consumers. At present, gas still sets the price of electricity, even though more of the system is now powered by cheaper renewables. As a result, those households that switch to a renewables-backed tariff are not receiving the full benefit and the country remains exposed to global gas price swings.

While the government has proposed changes to the wholesale market to reduce exposure to volatility - including moving some renewable generators onto fixed-price contracts through a revised Contracts for Difference model - these proposals do not change the fundamental issue: gas will continue to set electricity prices.

Independent analysis suggests the impact on bills from the Government's proposed changes would be minimal, saving around £3.50 per household per year in a high-price scenario, less than £1 in a central case, and potentially increasing costs if prices fall.

Without more fundamental structural change, there is a real risk that today's debate simply repeats itself in the years ahead.

Above all, households – and particularly those in fuel poverty - cannot afford to wait another decade for meaningful reductions in bills, nor for reductions in wider inflation and the cost of everyday goods and services that are pushed up by energy prices.

What is needed now is an honest, urgent conversation about how to decouple electricity prices from gas, so consumers can benefit directly from cheaper, homegrown clean energy.

That is why Good Energy has developed the following proposal - combining immediate support with longer-term reform. It includes practical steps to bring down bills this winter, alongside changes to the wholesale market and measures to lower the cost of financing clean power.

Taken together with last year's budget measures, we believe this package could reduce yearly bills by around £272 for typical households and £572 for targeted households, giving the government a real chance of delivering on its commitment to cut bills by £300 during this Parliament. It will also translate into lower bills for businesses, helping them to price their products and services more competitively.

This may not be the complete answer that Britain needs, but we hope it achieves two objectives:

- **First**, to show that practical solutions exist now to break the link between gas and electricity and reduce bills in the near term.
- **Second**, to ensure this issue remains a political priority and that long-term reform that will help everyone is delivered.

The cost of energy today reflects a system that is no longer fit for purpose. This report sets out how that can change to create not only a cleaner energy system, but also a cheaper one. The challenge now is to work together to make sure that happens.

Action is needed now.

Executive Summary

Good Energy has developed a package of policy proposals, including immediate actions to deliver relief from high bills this winter and longer-term recommendations to reform the wholesale energy market and reduce the cost of financing clean power.

Step 1: Immediate action to reduce bills this winter

To deliver relief in time for this winter, government should immediately:

- Move the three largest levies off energy bills and into general taxation, cutting a typical household bill by £76 and reducing non-domestic electricity costs by around 17%.
- Provide a further £300 in targeted support to households most in need, delivering total first-year support of £376.

These measures can be implemented quickly and provide immediate, targeted relief.

Step 2: Break the link through wholesale market reform

Alongside this, government should pursue reforms that reduce the underlying cost of the system. Breaking the link between gas and electricity prices, and reducing the cost of financing clean power, would lower costs across the economy and reduce exposure to future price shocks.

Taken together, Steps 1 and 2 could deliver:

- £159 in annual savings for a typical household, rising to around £459 for targeted households.
- £73/MWh reduction in non-domestic electricity costs, supporting businesses and public services

Combined with the positive steps taken at last year's Budget, this package of measures would bring total savings of around £272 for a typical household and £572 for a targeted household - putting Government within reach of its commitment to reduce bills by £300 over the Parliament.

Significant wider economic benefits

Lower energy costs also deliver wider economic benefits. Energy prices are a major driver of inflation, both directly through household bills and indirectly through business costs. Reducing energy costs therefore lowers inflation, eases pressure on real incomes and improves the public finances.

Our analysis suggests that this package could reduce CPI by up to 0.65 percentage points and RPI by around 0.76 percentage points. This reduces the cost of uprating government spending and servicing index-linked debt, while also lowering the cost of energy use across the public sector. We estimate these secondary benefits could amount to more than £4.5bn.

This is not just about short-term relief. It is about fixing the underlying drivers of high energy costs, improving economic resilience, and creating the conditions for a more competitive and electrified economy.

Government should act now to cut bills, protect vulnerable households this winter, and deliver lasting reform to the energy system.

Why are energy bills so high?

Gas still drives electricity prices

The main reason energy bills remain high is that the UK is still too exposed to gas. Even though renewables now provide a much larger share of power generation than in the past, gas-fired generation still often sets the wholesale electricity price. That means spikes in international gas markets continue to feed directly into electricity bills, even as the power system becomes cleaner.

This is one of the central weaknesses of the current system. Britain has built more low-carbon generation, but it still prices too much electricity as though gas were the decisive fuel. When gas prices rise because of war, instability or tight global supply, households and businesses feel the impact across the energy system rather than only in gas bills.

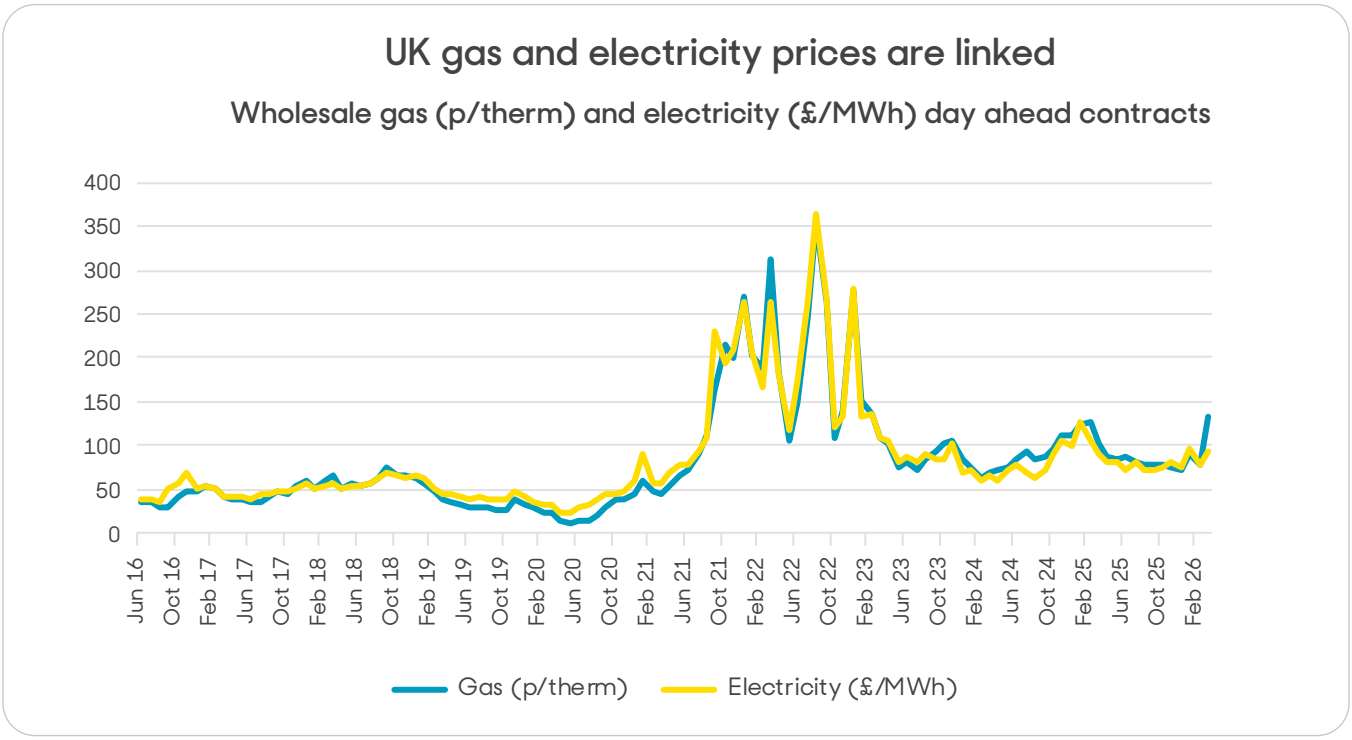


Figure 1: Ofgem Wholesale Market Indicators

As long as electricity prices are set by gas, consumers remain exposed to global fossil fuel volatility – even in a cleaner electricity system.

Network costs are rising

A second challenge is the cost of running and upgrading the electricity system. The network Britain has today was not designed for a system with a higher percentage of renewable generation. Insufficient network capacity means that despite having an abundance of renewable generation in some parts of the UK (for example, wind power in Scotland), we physically can't move that power to where it's needed. When that happens, we pay wind turbines to turn off and gas to turn up.

Policy costs sit in the wrong place

Policy costs fund real and important objectives like support for renewable generation and helping vulnerable consumers heat their homes through the winter. The issue is not whether those objectives should be funded. The issue is how those costs are recovered.

At present, too many of those costs sit on bills, and too much of that burden falls on electricity rather than gas.

The result is that these costs are recovered in a regressive way that disincentivises households and businesses to electrify their energy demand and reduce emissions. Many low-income households spend a higher share of their income on energy – and therefore on policy costs – than more affluent households. Electrically heated households are also more likely to experience fuel poverty, meaning those paying the most for electricity are often those least able to afford it.

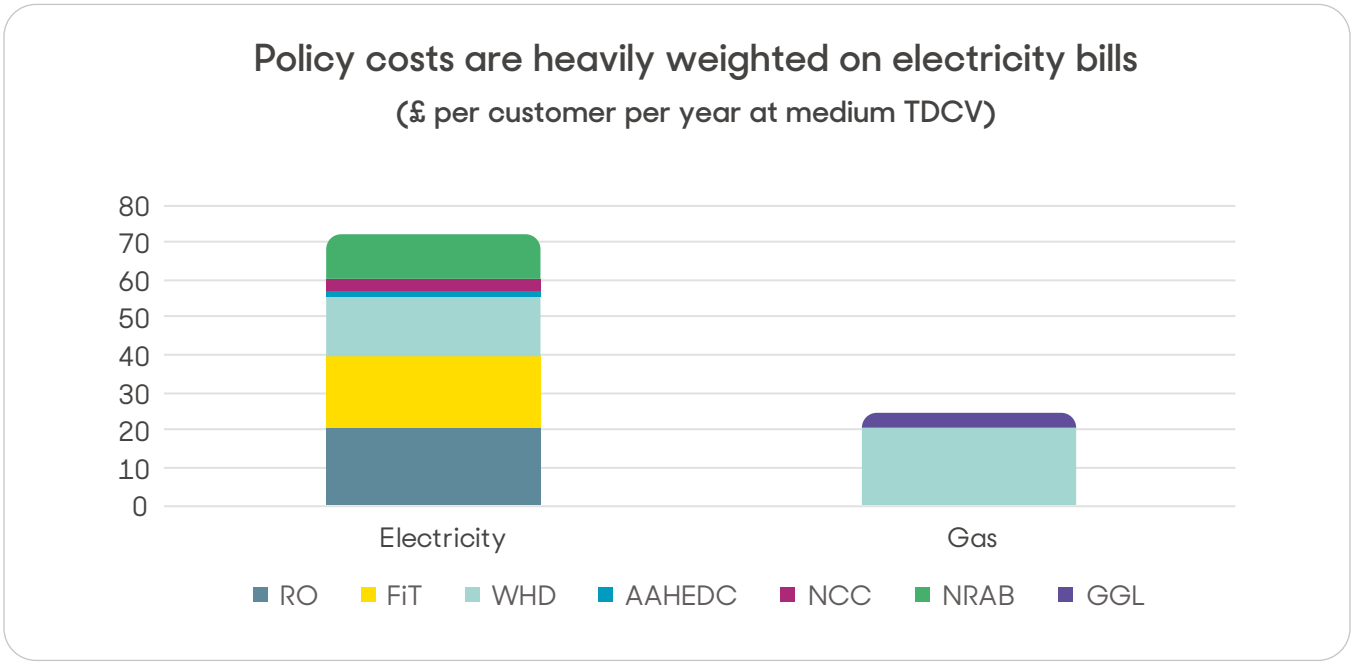


Figure 2: Source: Ofgem Price Cap Policy Costs Annex

What high bills mean for households, businesses and the economy

They deepen fuel poverty and energy debt

High energy bills are not a temporary inconvenience. They have become a structural affordability problem. Even after the peak of the energy crisis, many households remain under pressure, and energy debt continues to rise.

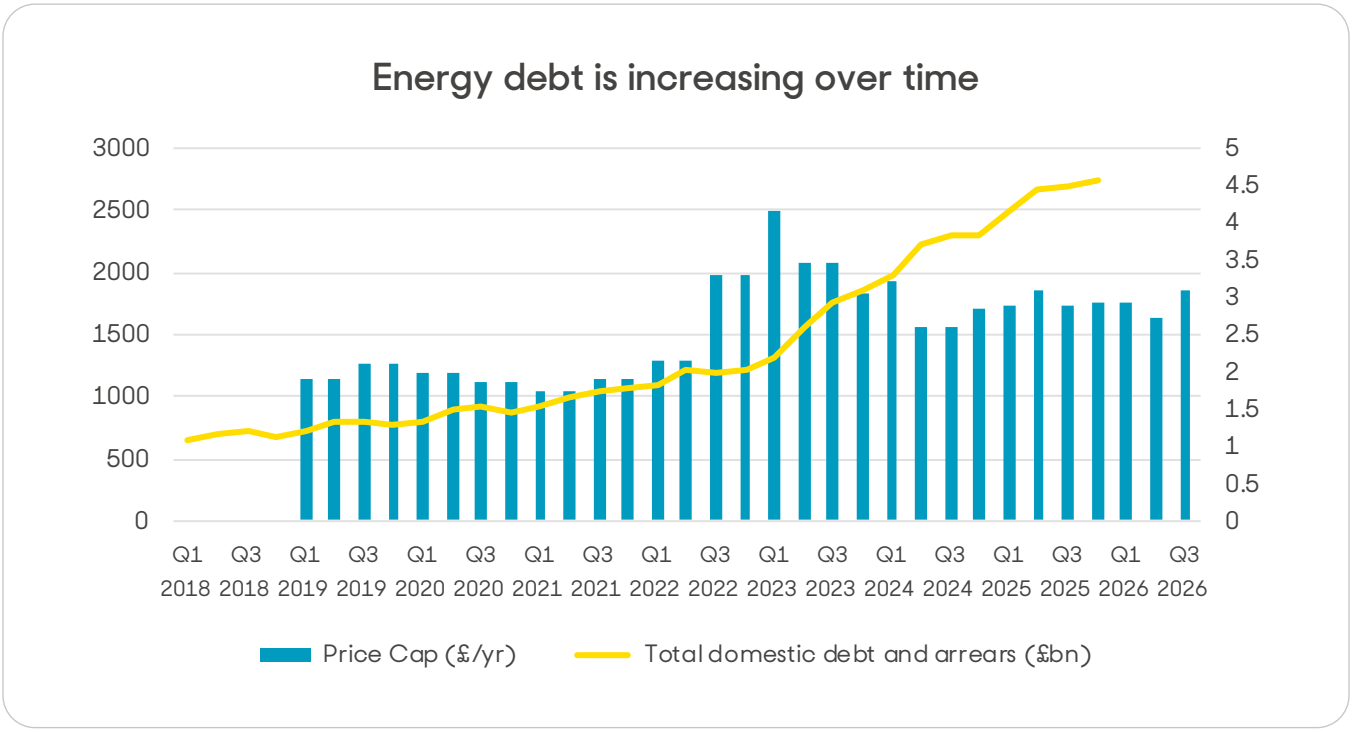


Figure 3 Source: Ofgem Retail Market Indicators

They slow down electrification

Britain needs households and businesses to electrify more of their energy use, given it reduces both emissions and exposure to international shocks. But the influence gas prices have on electricity, and the fact that levies are disproportionately weighted towards electricity bills, often pushes users in the opposite direction.

When electricity remains several times more expensive than gas per unit, the economics of switching to a heat pump or electrifying industrial processes are materially worse than they should be. This slows down adoption and keeps households and businesses locked into more expensive and more exposed fossil fuel systems.

In their 2025 progress report to parliament, the Climate Change Committee's first 'Priority Action' for the government was to make electricity cheaper relative to gas, and bring the ratio of domestic electricity to gas prices from the current level of around 4:1, to between 2:1 and 3:1. This would bring us into a similar range as other European countries who have rolled out heat pumps much more successfully than the UK so far.[1]

[1]Climate Change Committee, Progress in Reducing Emissions: 2025 Report to Parliament (2025).

They weaken UK competitiveness

Britain's high electricity prices are not just a household problem. They affect industrial competitiveness, business investment and the wider growth agenda.

This matters for public services, high street businesses, manufacturers and emerging high-load sectors – like data centres powering AI - alike. If Britain wants to compete in an electrified economy, it cannot keep asking businesses to operate with some of the highest power costs in the developed world.

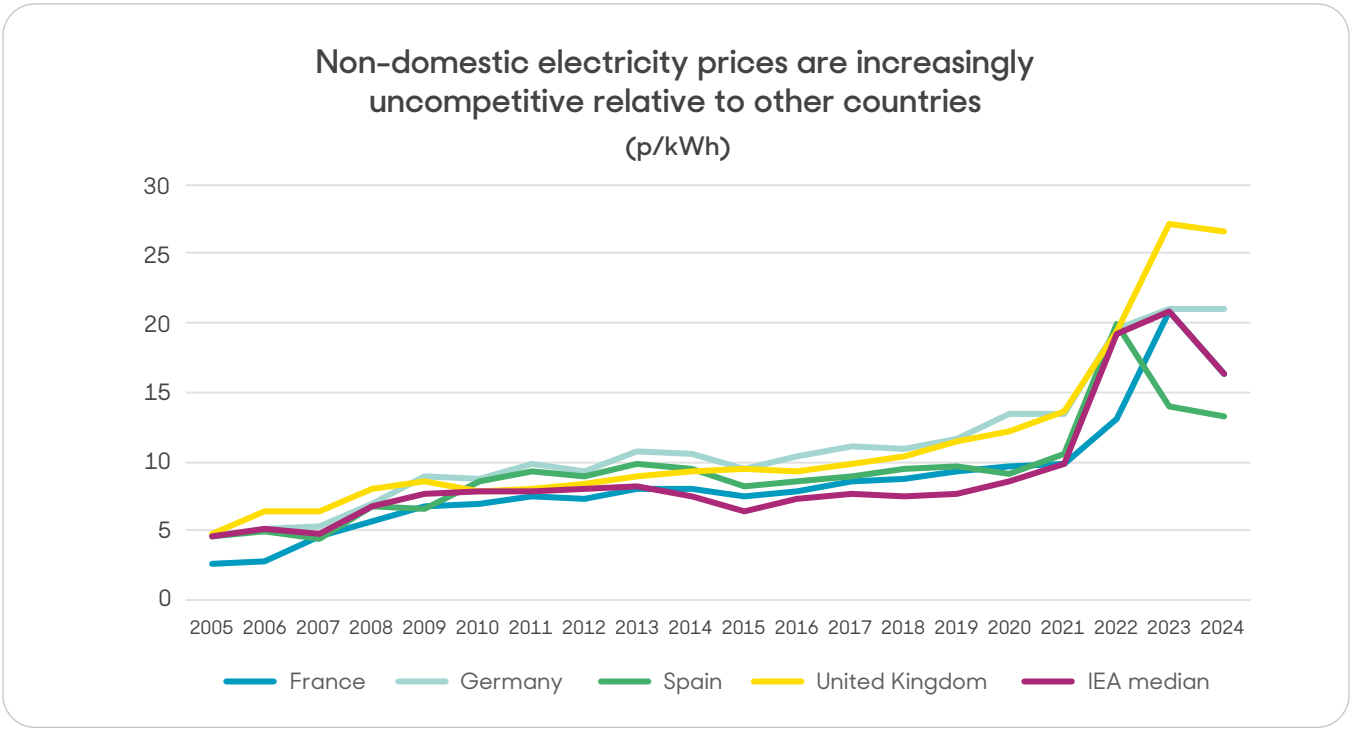


Figure 4 Source: DESNZ International non-domestic energy prices

Immediate reforms: What should be done now

There is no single reform that fixes every part of the problem. But there is a set of urgent actions that can be taken before winter, and a wider set of reforms that should then be pursued to reduce costs further over time.

1) Move the remaining major levies off bills

Government has already taken a step in this direction by moving 75% of the Renewables Obligation off domestic bills. The next step is to complete that shift and extend it across three further schemes, which taken together represent 80% of the remaining levy costs paid by domestic consumers.

The package examined in this report therefore proposes:

- Moving the remaining domestic **Renewables Obligation** to the Exchequer, while removing non-domestic Renewables Obligation from electricity prices;
- Moving **Warm Home Discount** costs into general government spending; and
- Moving the **Feed-in Tariff** off both household and non-domestic bills.

Taken together, these measures would reduce a typical dual fuel bill by around £76 a year, including £56 from electricity and £20 from gas. For businesses and public sector users, electricity costs would fall by around £40/MWh, equivalent to a ~17% reduction against current non-domestic prices.

The gross cost to Treasury of these changes would be £10.1 billion per year. However, these costs already exist. Moving them off bills would rebalance where those costs sit, while delivering immediate reductions for households and businesses. Should the approach need to be phased to manage these costs, we advocate for the remaining levies to be removed from domestic bills first, to address the acute cost of living and debt crisis currently being felt by so many across the country.

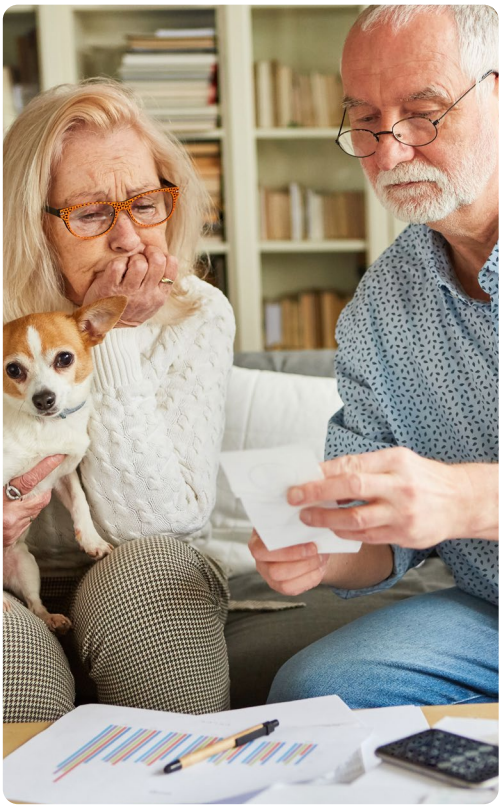
> Levies can currently be avoided by some non-domestic customers if they can demonstrate they are buying power from, and supporting, small scale renewables in real time.
>
> Moving these levies into the exchequer, despite being the right thing to do to bring down bills and enhance British industrial competitiveness, would weaken this incentive to support real time renewable generation. We therefore urge the government to implement other means to encourage and reward businesses for contributing to a lower carbon, more flexible grid.

These measures are essential to correct a system that already distributes costs in a way that inflates electricity bills and masks the true cost advantage of renewables. By aligning costs with their underlying drivers and removing distortions that tie electricity prices to volatile gas markets, our proposals enable energy that is cheaper to produce to translate into lower bills, where today it cannot. This approach improves transparency, supports more efficient consumer choices (i.e. electrification) and delivers real bill reductions.

What are the RO, FIT and WHD?

- **The Renewables Obligation (RO)** is a legacy support scheme that supports larger renewable electricity generation that came online before 2017.
- **The Feed-In Tariff (FIT)** supports small scale renewable such as rooftop solar arrays that were installed prior to 2019.
- **The Warm Home Discount (WHD)** provides a £150 bill rebate to low-income households.

2) Strengthen targeted support via a £300 payment to those who need it



For many households – particularly those on lower incomes or already in debt – these bill reductions will not fully address the pressure they face. We therefore propose combining the universal bill reductions resulting from levy removal with deeper, targeted support for those most in need.

The most practical way to deliver that support at pace is to build on the existing Warm Home Discount (WHD). We do not think WHD eligibility is the right long-term basis for targeting support — it excludes many struggling households. However, it is currently the only mechanism that can be scaled quickly enough to deliver meaningful support this winter.

Government should therefore provide an additional £300 currently provided to approximately 6 million WHD recipients, at a cost of £1.8bn to the exchequer. This will mean that when combined with levy removal, recipients' bills will be £376 lower than they otherwise would have been this winter.

This approach reflects a key lesson from the previous energy crisis: broad-based support schemes were expensive and often poorly targeted. The Energy Bill Support Scheme, for example, provided £400 to all households, including those on cheap fixed tariffs agreed well in advance of price rises. Well-designed targeted support can deliver comparable impact at significantly lower cost.

Crucially, it also helps prevent short-term affordability pressures from becoming longer-term problems. Persistently high bills have driven rising energy debt in recent years, and without additional support this pressure is likely to continue even if prices stabilise.

Next Step: While WHD provides a delivery route for this winter, it should be treated as an interim solution. The Government should also use the Energy Independence Bill to accelerate work to improve targeting. Better data sharing between different government departments and energy suppliers would allow support to be based on a fuller picture of income, debt, and vulnerability.

Subsequent reforms: Bringing down costs over time

The measures in the previous section can and should be delivered immediately. However, this will not fundamentally address all the issues contributing to higher bills. We therefore recommend the government also expedite work on further reforms to address these.

1. Break the link between gas and electricity prices

As a key driver of high bills, the link between gas and electricity prices that is baked into our wholesale market needs to be addressed. UKERC analysis suggests that gas-linked revenues accounted for 90% of generation in 2024, and that increases in the wholesale gas price represented 66% of the real-terms increase in bills from since 2021.[2] As we build more renewables, this influence will decrease, but slowly, and importantly not necessarily in a way that delivers meaningful reductions in cost. The increased use of Contracts for Difference fixes the price of renewable generation, but often at levels heavily influenced by the wholesale market, driven by gas.

In April, government announced their plans to move some legacy renewable assets from their current support scheme, the Renewables Obligation, onto Wholesale Contracts for Difference. This would take them out of the wholesale market and onto fixed contracts. The Government did not provide an assessment of the impact this could have on bill reduction given much of the policy is yet to be designed, but Baringa analysis suggests the impact could be limited, with savings of £3.50 per household per year in sustained high-price scenarios, less than £1 in a central case, and could even cost consumers if wholesale markets are low.[3]

We believe greater ambition is needed to address the role of gas in the pricing of power. One option that merits serious consideration – and that Good Energy supports - is to remove gas-fired power stations from the wholesale market altogether and place them into a regulated 'strategic reserve' model backed by a Regulated Asset Base.[4] In practice, this means gas would no longer set the marginal price of electricity. Instead, it would operate as a backup source of supply with stable, regulated returns. In short, where current proposals chip away at the link between gas and power, this approach is designed to sever it entirely.

Analysis by Greenpeace and Stonehaven suggests that a gas strategic reserve could be implemented within two years and deliver savings of up to £60 per year for a domestic customer and £24/MWh for non-domestic users.[5] Direct costs would be predominantly administrative. However, government would forgo some carbon-related tax revenues if implemented as designed, amounting to £1.7m in 2028 but reducing to £0.5bn by 2035.

[2] UK Energy Research Centre, The Price of Power: Wholesale Market Price Formation, Policy Costs and Domestic Electricity Bills in Britain (2024).

[3] Baringa Partners, Breaking the Link Between GB Gas and electricity prices: Initial analysis of the proposed 'wholesale CfD' (LinkedIn post, 2024).

[4] Greenpeace UK and Stonehaven, Power Shift (2025).

[5] Greenpeace UK and Stonehaven estimate annual savings of £65 for a typical domestic customer under a gas RAB model; adjusted using Ofgem's Typical Domestic Consumption Values effective from 1 July 2025, this equates to approximately £60.

2. Lower the cost of financing clean power

Another driver of high electricity bills is the cost of financing renewable generation. Unlike gas-fired power, renewables have low running costs but are capital intensive upfront, which makes overall system costs highly sensitive to interest rates. As borrowing costs have risen, so too has the cost of new projects, feeding through into higher CfD strike prices and, over time, into higher consumer bills.

Crucially, there is strong evidence that recent inflation — and therefore higher interest rates — has itself been driven largely by energy prices. The ONS identifies energy as a primary driver of inflation, both directly through household bills and indirectly via wider production costs.[6] This creates a feedback loop where higher energy prices push up inflation, higher inflation raises interest rates, and higher rates increase the cost of the clean generation needed to reduce bills. Put simply: higher energy bills make it more expensive to build the system that lowers them. Disrupting this feedback loop could bring down the cost of building renewables, and the impact this has on bills.

The New Economics Foundation proposes a targeted Bank of England scheme – named the Term Funding Scheme for Energy Price Stability – which would provide low cost finance for clean energy investment.[7] The case for intervention is that this would support the Bank's primary objective of maintaining price stability, doing so by reducing exposure to future energy price shocks.[8]

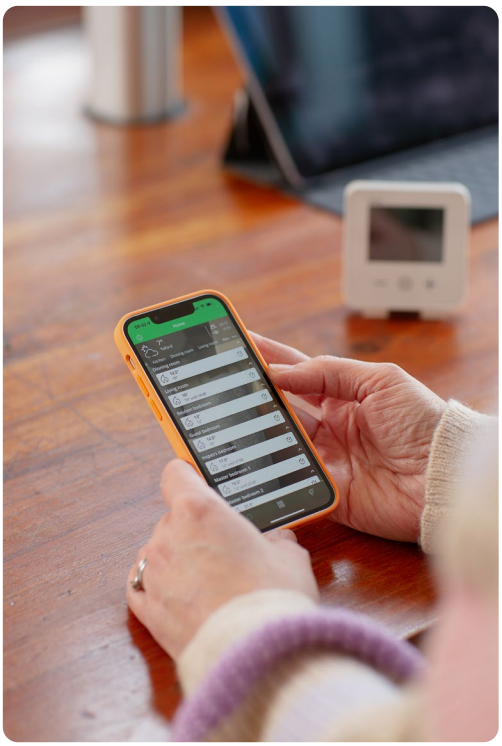
Ultimately, we consider it in the interest of consumers to reduce the cost of capital for those investing in low carbon power. NEF's modelling suggests this would be the case, estimating that a 2.5 percentage point reduction in borrowing costs for renewables and grid infrastructure could reduce electricity costs by up to £22 per household from 2030.[9]

3. Enable demand-side flexibility and electrification

A lower-cost power system depends not only on cheaper supply but also on better use of demand. By lowering electricity costs and improving price signals, it becomes easier for households and businesses to shift usage in ways that support the system. In its 2021 Smart Systems and Flexibility Plan, the government projected this could reduce overall system costs by 14%.

To achieve this, the government is targeting 10-12GW of consumer-led flexibility by 2030.[10] However, success is dependent on broadening consumer participation beyond early adopters, supporting more consumers to transition from passive energy users to more active participants.

A high-renewables, electrified energy system requires price signals that actively reward flexibility, instead of a policy framework that continues to suppress it. Empowering consumer led flexibility demands a rethinking of how levies interact with flexibility energy use argues the ADE. Despite increasing periods of negative pricing, consumers cannot be paid to soak up excess renewables since final consumption levies keep the unit cost above zero.[11]



[6] Office for National Statistics, 'The Energy Intensity of the Consumer Prices Index' (2022).

[7] New Economics Foundation, Reducing Interest Rates for Clean Energy Investments (2024).

[8] A similar effect could potentially be achieved through National Wealth Fund or direct Treasury financing, although this would have public balance sheet implications.

[9] New Economics Foundation estimates annual savings of £24 for a typical domestic customer; adjusted using Ofgem's Typical Domestic Consumption Values effective from 1 July 2025, this equates to approximately £22.

[10] Department for Energy Security and Net Zero, Clean Flexibility Roadmap (2025).

[11] Association for Decentralised Energy, Demand: Consumer-Led Clean Power (2025), 12.

Savings, costs, and wider fiscal impacts

The benefits delivered through the implementation of the package of measures break down as follows:

Step 1

Removal of levies

- **Renewables Obligation (RO):** delivers savings of **~£20 per household** and **~£33/MWh for non-domestic users.**
- **Warm Home Discount (WHD):** delivers savings of **~£36 per household**, spread across both electricity and gas bills. Non-domestic consumers do not pay for the WHD so see no benefit.
- **Feed-In Tariff (FIT):** delivers savings of **~£19 per household** and **~£7.7/MWh for non-domestic users.**

Targeted support

- **£300 for 6 million eligible households,** bringing total first-year support to **~£376 when combined with levy removal.**

Step 2

Breaking the link between gas and electricity pricing

- **Strategic gas reserve** delivers savings up to **~£60 per household** and **~£24/MWh non-domestic saving.**

Reducing the cost of capital:

- **Bank of England financing scheme:** delivers savings up to **~£22 per household** and **~£9/MWh non-domestic saving**, by lowering the financing cost of clean electricity generation.

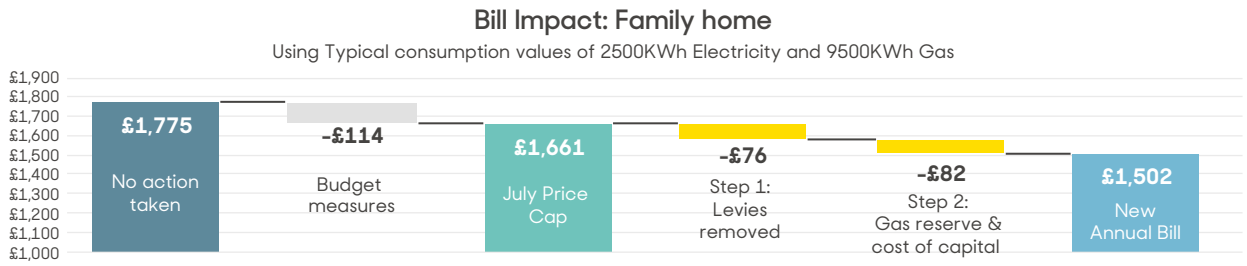
What does this mean for bills?

Households

Family home

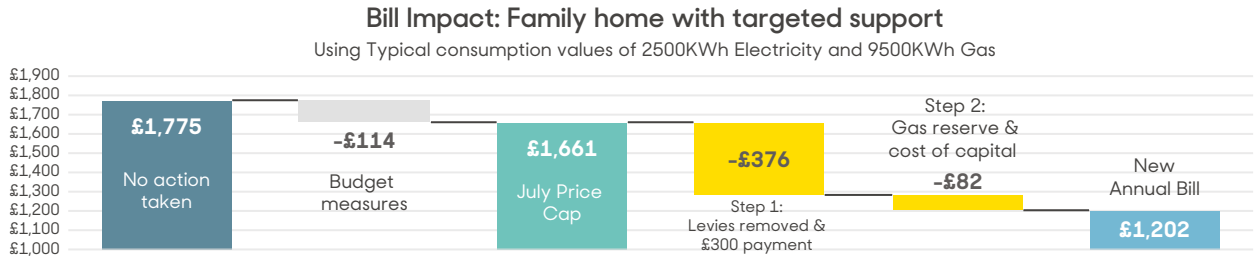
For a typical two bed, semidetached family home, implementing the measures proposed in this report would reduce bills by £158. Combined with the steps taken by the government at last years' budget, that saving increases to £272 – just shy of the government's £300 commitment.

Impact of measures on a typical dual fuel household



If that same family home qualified for the additional targeted payment of £300, their savings would increase to £572. Savings are heavily concentrated on electricity bills, making it more competitive relative to gas, and reduce running costs of low carbon technologies like heat pumps and electric vehicles.

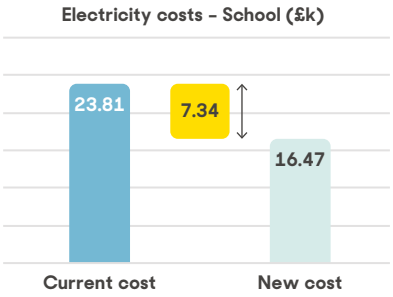
Impact of measures on a typical dual fuel household qualifying for targeted payment



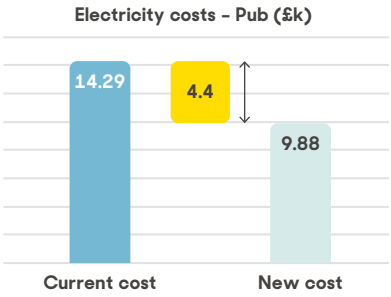
Public sector buildings and businesses

Our proposed package of measures reduces non-domestic electricity costs by 31%. This would benefit the public sector, saving schools and hospitals valuable funds, and support struggling sectors like hospitality. It would also incentivise investment in sectors targeting growth, like AI. Electricity can account for around 35-60% of a data centre's operating costs. A 31% reduction in electricity prices would therefore reduce overall operating costs by approximately 11-19%. This would go some way to making the UK a more attractive destination for operators, in line with the government's ambitions.

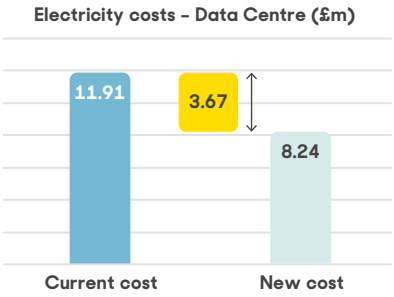
Secondary school with ~1000 pupils, using 100MWh per year



Typical village pub using 60MWh per year



Medium sized data centre consuming 50GWh per year



Cost of implementation: Direct cost, offsets and wider impacts

The immediate package of levy removals and targeted support has an illustrative gross annual cost to treasury of £10.09bn, delivering an equivalent sum in savings to billpayers.

The implementation of wholesale market and cost of capital reforms would indirectly increase this cost to £11.83bn, by way of foregone carbon taxes. However, total savings could increase to £17.53bn, due to costs being removed from the system.

Additionally, there are a number of direct and secondary factors which both offset the cost of implementation or reduce it over time.

1. Public Sector Electricity Costs

Electricity consumption in the Public Administration sector sits at around 15.1TWh per year. Reducing electricity bills has a direct impact on the cost of powering schools, hospitals, and government department buildings. The removal of levies has no impact on net government spend as those costs are still being paid for by the Treasury – just through a different route. However, the structural reduction in costs brought about by breaking the link between gas and electricity prices, and lower cost of capital, do have an impact. The £32/MWh reduction in non-domestic electricity costs would equate to a 14% reduction in government spending on electricity, resulting in a total saving of £0.5bn.

2. Reduction in costs over time

Most of the costs associated with the implementation of this package stem from taxpayers shouldering the cost of levies rather than billpayers. The levies in question are mostly legacy costs and will begin to reduce from next year, disappearing entirely by the late 2030s.

- The Renewables Obligation is a legacy support mechanism, and generators receiving payments for certificates issued under the scheme will begin to roll off in 2027, with the support ending completely in 2037.
- Similarly, the Feed-in Tariff has been closed to new generators since 2019. The scheme cost will begin to reduce from 2030, with support ending by 2039.
- Forgone carbon taxes as a result of implementing a gas reserve will also decline as gas generation represents an ever-decreasing part of the electricity mix.

Lower bills do not just help households and businesses directly. They also reduce direct public sector electricity costs and could reduce inflation, leading to lower uprating of government spending, and reduced borrowing costs. These impacts must be considered in the round when establishing the costs and benefits of implementing any bill reduction measures.

3. Inflation

Energy costs play a significant role in driving inflation, both directly and indirectly. They enter inflation measures such as CPI and RPI explicitly through household gas and electricity bills but also feed through more broadly as a core input to production and service delivery across the economy. As electricity and gas prices rise, they increase the cost of producing goods, running businesses, and delivering public services, with these pressures ultimately passed through to consumers.

This dynamic has important societal consequences. Higher energy-driven inflation erodes real incomes, placing strain on low-income households; increases the cost of delivering public services; and contributes to wider economic uncertainty, including higher interest rates and borrowing costs. In effect, persistently high energy costs can amplify both cost-of-living pressures and macroeconomic instability.

For these reasons, it is important to consider not only the direct bill reductions delivered by policy interventions, but also their wider anti inflationary effects. Measures that lower energy costs can help to reduce inflation across the economy, supporting households, easing pressure on public finances, and improving overall economic stability.

We estimate that removing levies from domestic and non-domestic bills reduces CPI by 0.32pp (percentage points), and RPI by 0.38pp. The addition of a strategic gas reserve and reduced cost of capital results in a reduction in CPI of 0.65pp, RPI by 0.76pp. This would lead to a reduction in government spending, as well as the cost of servicing government debt.

4. Avoided uprating of government spend

A significant amount of government spending, particularly in the welfare system, is uprated periodically using the Consumer Prices Index. Using a £136.1 billion CPI-linked spend base, the full illustrative package of measures would reduce this spend by £0.97bn.[12]

5. Debt servicing and borrowing costs

Treasury report UK's stock of index-linked debt stood at around £688.5bn at the end of 2025.[13]
The majority of this debt is linked to the Retail Prices Index. A 0.76pp reduction in RPI could lead to a substantial gross debt-interest saving of £5.25bn per year. However, this figure needs to be adjusted due to other impacts, such as forgone government income from reduced uprating of excise duties and lower accrued interest on student loans. Adjusting this figure using methodology applied in OBR analysis of lower RPI paths results in a net borrowing improvement of £3.68bn.

While they should not be considered as direct 'offsets' against the gross cost to the treasury of implementing bill reduction policies, these secondary impacts could represent up to £4.15bn of additional benefit to the public finances.

Ultimately, costs should be judged against the alternative: leaving costs on bills, leaving inflation higher than it needs to be, leaving businesses exposed to avoidably high electricity prices, and leaving in place price signals which will limit our ability to electrify the economy and reduce fossil fuel dependency and carbon emissions.

They should also be judged against the scale of crisis support delivered by previous governments. The National Audit Office estimated that energy bill support during the Ukraine crisis was estimated at around £44 billion of additional cost.[14]

On that basis, even the full package is much smaller than the support government provided at the height of the crisis. More importantly, it is different in kind. Crisis support largely cushioned a price shock after it had happened. This package is about providing enduring reform - changing where costs sit and reducing them at source.

[12]Calculations based on Office for Budget Responsibility welfare expenditure tables for 2025-26. The core CPI-linked expenditure base (£136.1 billion) comprises Universal Credit, Personal Independence Payment, Attendance Allowance, Disability Living Allowance, Employment and Support Allowance and Carer's Allowance. A broader variant (£149.0 billion) additionally includes Housing Benefit.

[13]HM Treasury, Debt Management Report 2026-27 (2026).

[14] National Audit Office, 'Energy Bills Support Schemes Undoubtedly Successful at Protecting Majority of Consumers' (press release, 2023).

Table summary of measures, savings, and inflationary impacts

Measure		Savings				Cost (£bn)		Total Savings (£bn)	CPI	RPI	CPIH
	Dom Elec (£/yr)	Dom Elec (£/yr)	Dom Gas (£/yr)	Dom Elec Targeted (£/yr)	Non Dom Elec (£/MWh)	Direct	Indirect		pp reduction	pp reduction	pp reduction
2025 Budget	75% of Domestic RO to Exchequer	61.35				1.82		1.82	0.15	0.19	0.11
	End of ECO*	22.28	29.93			0.00			0.09	0.13	0.07
Step 1: Levies & Targeted Payment	Remaining 25% of Domestic RO to Exchequer	20.45				0.61		0.61	0.05	0.06	0.04
	Non-Domestic RO to Exchequer				32.73	4.98		4.98	0.13	0.13	0.13
	Warm Home Discount to Exchequer	15.94	20.61			0.97		0.97	0.06	0.09	0.05
	Domestic Feed in Tariff to Exchequer	19.25				0.57		0.57	0.05	0.06	0.03
	Non-Domestic Feed in Tariff to Exchequer				7.70	1.17		1.17	0.03	0.03	0.03
	Additional payment of £300 to 6m households**			300.00		1.80		1.80	0.00	0.00	0.00
Step 2: Further Reforms	Strategic Gas Reserve (Power Shift)***	60.13			24.05	0.00	1.74	5.44	0.24	0.28	0.20
	Cost of Capital reductions (NEF BoE measures)	22.20			8.88	0.00		2.01	0.09	0.10	0.07
Total		137.96	20.61	300.00	73.36	10.09	1.74	17.53	0.65	0.76	0.55

* Not considered a cost by OBR
** Not treated as reducing inflation in line with approach to EBSS
*** Adjusted for new TDCVs; CPS removed from indirect costs.

Methodology, assumptions and limitations

Consumption values, prices and bill reductions

- Typical Domestic Consumption Values (TDCV), domestic pricing information and levy costs are based on Ofgem's July 2026 price cap publications.
- Data on the number of meters, non-domestic electricity demand, and business electricity costs are drawn from DESNZ publications.
- Savings and costs associated with the strategic reserve model and cost of capital measures are taken from published analysis by Stonehaven/Greenpeace and the New Economics Foundation and adjusted where necessary to reflect the updated TDCV assumptions implemented by Ofgem from July 2026.
- Domestic bill impacts are calculated by applying relevant policy costs to the Medium TDCV, with adjustments where costs are partially recovered through standing charges.
- Non-domestic impacts are expressed consistently in £/MWh.

Inflation

- Direct contributions of electricity and gas to CPI, RPI and CPIH are based on ONS inflation basket weightings.
- Indirect effects of electricity costs are based on ONS estimates of energy intensity within the wider CPI basket. ONS estimates an overall indirect energy intensity of 1.7% across remaining CPI categories.
- Within this, electricity is assumed to account for 55% of indirect energy exposure, resulting in an indirect electricity weight of 0.94%.
- The impact of bill reductions on inflation is calculated by applying energy price reductions to these weightings. Domestic savings contribute to direct energy components of CPI/RPI, while non-domestic savings contribute to indirect effects, reflecting lower production costs feeding through to prices.
- The proposal to provide an additional £300 in targeted bill support is not deemed to reduce inflation, in line with the approach taken by the ONS concerning the Energy Bill Support Scheme.[15]

Government spending

- The CPI-linked spending base is derived from Department for Work and Pensions benefit expenditure and caseload data.
- The stock of index-linked debt is taken from the HMT Debt Management Report 2026/27.
- The pass-through from changes in RPI to borrowing is based on Office for Budget Responsibility analysis of the impact of RPI changes on fiscal forecasts.

Key assumptions and limitations

- **Static approach:** The analysis is based on current prices, consumption levels and policy costs, and does not model how impacts evolve over time. This approach is intended to provide a clear and comparable snapshot of where bill savings can be delivered under current system conditions, which is most relevant for assessing near-term policy choices, particularly those aimed at delivering relief in advance of winter.
- **Treatment of individual measures:** Impacts are calculated on a stand-alone basis and then combined. In practice, interactions between measures mean that impacts may not be fully additive. For example, changes in wholesale prices or financing costs could affect the scale of savings delivered by other reforms.
- **Sensitivity to external conditions:** Results depend on factors outside the scope of the model, including wholesale gas prices, behavioural responses, interest rates and technology costs.

[15] Office for National Statistics, 'Energy Bills Support Scheme Classification' (2022).

Conclusion

Britain's energy bills are too high, and too much of the cost is sitting in the wrong place. Gas continues to set electricity prices, policy costs remain concentrated on electricity bills, and the cost of building the future energy system has increased. The result is a system that is unfair to consumers, damaging to business, and is stalling progress towards electrification and growth.

There is a clear case for action now. Moving the remaining major levies off bills and strengthening targeted support would deliver immediate relief this winter – cutting a typical bill by £76, raising support for vulnerable households to £376, and reducing non-domestic electricity costs by around 17%. These are practical, deliverable measures that can be implemented quickly.

But this should not be the end of the story. Lasting reform requires addressing the underlying drivers of high costs. Breaking the link between gas and electricity prices and reducing the cost of financing clean power would lower system costs over time, delivering deeper and more durable savings for households, businesses and the public sector.

Taken together with steps already taken, this package brings government close to meeting its £300 bill reduction commitment. More importantly, it sets a clear direction for how bills can be reduced sustainably over the long term.

Lower energy costs are not just a household issue – they are central to economic performance. High electricity prices are holding back investment, weakening competitiveness, and slowing the transition to an electrified economy. Reducing them is essential to improving growth, supporting public services, and building resilience against future shocks.

The choice is clear. Continue to load costs onto bills and remain exposed to volatile global markets or act now to reduce costs at source and build a more stable, competitive energy system.

Government should act now to cut bills, protect vulnerable households, and set the UK on a path to permanently lower energy bills.

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